McKinsey Global Institute






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From poverty to empowerment: India's imperative for jobs, growth, and effective basic services

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From poverty to empowerment: India's imperative for jobs, growth, and effective basic services

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680 million Indians
cannot meet their essential needs

~50% of public
spending on basic services
does not reach the people

46% of basic services
are not within reach for the
average household

¾ of the potential
impact will come from jobs
and productivity growth

580 million
people can be economically
empowered by 2022

115 million
additional non-farm jobs
needed over the next decade

70% increase
needed in agricultural
yields over the next decade

50% of public social spending
is needed for health care, water, and
sanitation, up from 20% today



Executive summary

Long considered an immutable fact of life in India, extreme poverty is finally in retreat. India launched its first wave of economic reforms in the early 1990s, resulting in a decline in the official poverty ratio from 45 percent in 1994 to 37 percent in 2005. Over the next seven years, a period in which India achieved the fastest rate of economic growth in its history and also implemented a number of policies aimed at helping the poor, extreme poverty declined rapidly to 22 percent of the population, or some 270 million people.

This is an achievement to be celebrated—and yet now is an opportune time to set higher aspirations. The government's poverty line sets a fair benchmark for extreme poverty, but it counts only those living in the most abject conditions. Even a cursory scan of India's human development indicators suggests more widespread deprivation in terms of quality of life and access to basic services. Above and beyond the goal of eradicating extreme poverty, India can address these issues and create a new national vision for helping more than half a billion people build a more economically empowered life.

This topic has been the subject of a national debate that has stretched well beyond academic and policy circles. To advance the thinking around this issue, the McKinsey Global Institute (MGI) has created a new analytical framework—one rooted in sound economic methodology and utilising published government data—to define a minimum acceptable standard of living. The result is the Empowerment Line, a holistic measure of income-based deprivation, which this report applies to the Indian context.

While India's official poverty line focuses on extreme poverty, the Empowerment Line poses an entirely different question: what is the level of consumption required for an individual to meet the necessities of human development? To answer this, we estimate the cost of fulfilling eight basic household needs (food, energy, housing, drinking water, sanitation, health care, education, and social security) at a level sufficient to achieve a decent, if modest, standard of living rather than just bare subsistence.

In applying this metric for 2011–12, we find that 56 percent of India's population lacks the means to meet their essential needs. By this measure, some 680 million Indians are deprived—more than 2.5 times the population of 270 million below the official poverty line. Hundreds of millions have exited extreme poverty, but their lives are still marked by a continuous struggle to achieve a modicum of dignity, comfort, and security. The Empowerment Gap, or the additional consumption required to bring these 680 million people to the level of the Empowerment Line, equates to 4 percent of GDP. The cost of bridging this gap is seven times higher than the cost of eliminating poverty based on the official poverty line.

The Empowerment Line is a measure of individual consumption, yet the ability or willingness to spend money is not wholly sufficient to guarantee a decent quality of life. In addition to having sufficient income, households need physical access

to affordable basic services of acceptable quality. Their own purchasing power can meet some needs, such as food and energy, but they also require access to community-level social infrastructure such as health clinics and schools. Therefore, to complement the Empowerment Line, we introduce a second parameter to measure this: the Access Deprivation Score (ADS), which captures the availability of basic services at the national, state, or even the district level. The ADS metric reveals that, on average, Indian households lack access to 46 percent of the basic services they need.

In seeking solutions, a look at the past is revealing. Three-quarters of the reduction in the Empowerment Gap achieved from 2005 to 2012 was due to rising incomes, while one-quarter was due to increased government spending on basic services. The contribution of rising incomes could have been even higher, however, if India had created non-farm jobs at a faster pace and boosted agricultural productivity—and the recent economic slowdown has stalled further progress on these fronts. Although government spending on basic services increased rapidly during this period, its impact was also dampened by inefficient programme delivery. In fact, by our estimates, half of what was spent did not produce better outcomes for the poor. India's ability to further increase social spending is also coming under pressure, as slowing economic growth limits the available fiscal resources.

If India's recent weak economic momentum persists in the coming decade, in what we have termed the "stalled reforms scenario", some 470 million people, or 36 percent of India's population, would remain below the Empowerment Line in 2022 and as much as 12 percent would remain below the official poverty line.

But our research outlines a more ambitious yet economically sound path of "inclusive reforms"—one based on a vision for delivering a better life to the average Indian citizen by 2022. This scenario can be achieved by launching a virtuous cycle of job creation and productivity growth that raises incomes and generates resources for public spending; it also involves making the delivery of basic services more effective. This has the potential to leave 100 million people (7 percent of the population) below the Empowerment Line in 2022, and just 17 million (1 percent of the population) below the official poverty line. All told, more than half a billion Indians could cross the threshold of consumption required for an economically empowered life. Access to basic services, too, would vastly improve, with access deprivation falling from 46 percent in 2012 to just 17 percent in 2022.

Merely increasing government subsidies can achieve only a fraction of this goal, however. Our estimates indicate that as in the past, almost three-quarters of the potential impact of raising people above the level of the Empowerment Line depends on unlocking investment, job growth, and productivity. More public spending alone, without addressing issues of waste and inefficiency, is likely to deliver at most 8 percent of total potential impact.

The importance of this message cannot be overstated. Government spending is critical to ensure access to basic services, but simply channelling more money into the same programmes without addressing their operations and outcomes will deliver very little. It is within India's grasp to bring the share of the population below the Empowerment Line to single-digit levels and virtually eradicate extreme poverty by 2022—but doing so will require policy makers at all levels of government to focus on an agenda that emphasises job creation, growth-

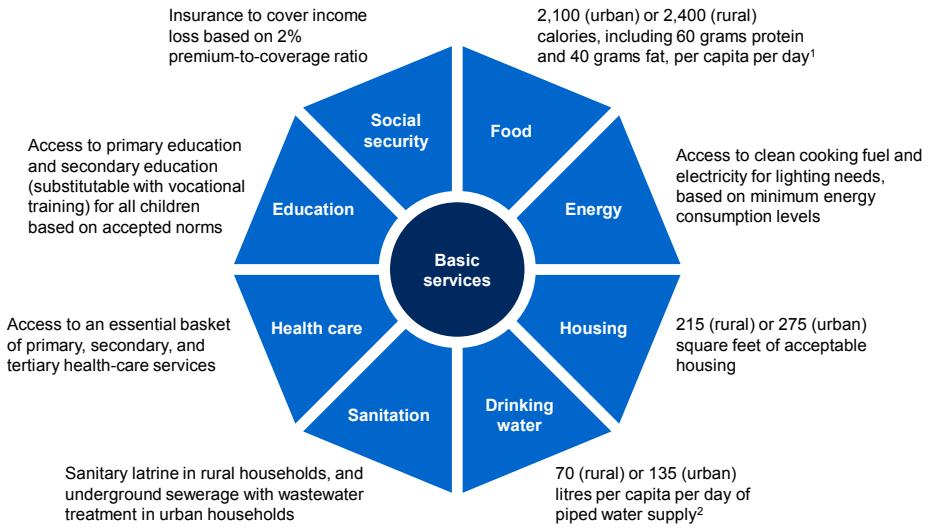
oriented investment, farm sector productivity, and more innovative delivery of social programmes.

While the framework and funding would fall to the central government, many of the specific initiatives that would make this agenda a reality can be implemented at the state level. The only requirements are political will and a relentless focus on results—and with these building blocks in place, India could realise its long-held goal of providing all its citizens with basic dignity and economic opportunity.

The Empowerment Line reveals that 56 percent of India's population lacks the means for a minimum acceptable standard of living

A new and more holistic measure of income deprivation, the Empowerment Line is an estimate of the minimum economic cost for a household to fulfil eight basic needs: food, energy, housing, drinking water, sanitation, health care, education, and social security (Exhibit E1). This research calculates the level of consumption required to meet these needs in India, assuming that infrastructure and access points are available at an efficient cost. This measurement can form the basis for a new national vision of a better standard of living for all citizens.

Exhibit E1
Eight basic services contribute to a minimum acceptable standard of living



1 Protein and fat norms for adults.
2 Drinking water encompasses water for household uses as well as for personal consumption.
SOURCE: McKinsey Global Institute analysis

In looking at what constitutes an acceptable living standard, the Empowerment Line considers human development and applies externally defined norms to set the standards for each basic need. Overall, the Empowerment Line's minimum standards of consumption are approximately 1.5 times higher than those implicit in the official poverty line. Consumption requirements for health (including drinking water and sanitation) and education are 5.5 and 3.8 times higher, respectively, reflecting the minimum cost of meeting these essential needs. After taking into account the value of government spending on basic services that already

reaches the people, we calculate India's Empowerment Line at Rs. 1,336 per capita per month, or almost Rs. 6,700 for a family of five per month.[1] As of 2012, the consumption levels of almost 680 million people across both urban and rural areas of the country fell short of this mark. This far outstrips the 270 million Indians below the official poverty line.

At a more detailed level, the Empowerment Line is set some 38 percent higher for urban India than for rural India. Based on this benchmark, 171 million urban residents (or 44 percent of the urban population) were below the Empowerment Line, compared with 509 million rural residents (or 61 percent of the rural population).

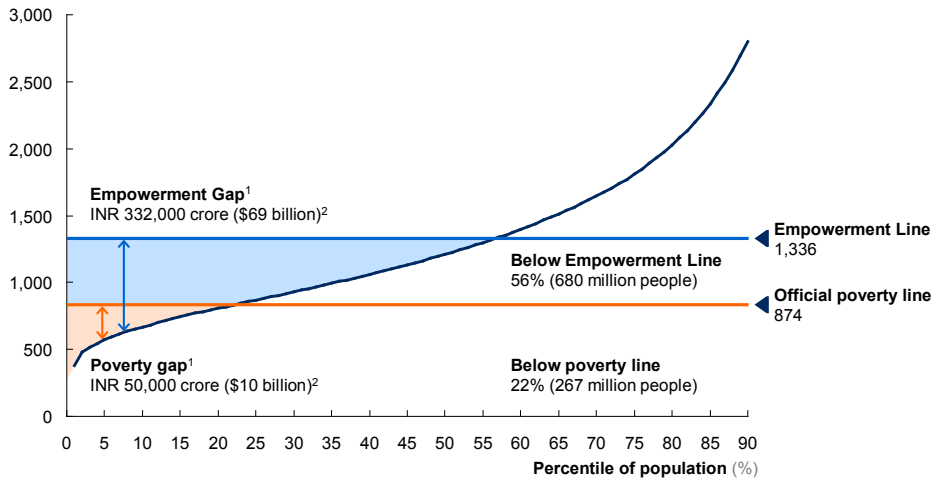
The Empowerment Line reveals that the challenge of improving people's lives in a fundamental and more lasting way is much greater than the challenge of eradicating official poverty. The Empowerment Gap, or the difference between each person's current consumption and the levels called for in the Empowerment Line, is about Rs. 332,000 crore ($69 billion) per year, or 4 percent of GDP. This is seven times larger than the Rs. 50,000 crore ($10 billion) poverty gap (that is, the difference between the current consumption of India's officially poor and the level implicit in the government's poverty line, shown in Exhibit E2).

Exhibit E2

The Empowerment Gap, at Rs. 332,000 crore ($69 billion), is seven times larger than the poverty gap

Average monthly consumption expenditure

INR per capita per month, 2011–12, in 2011–12 prices



1 The Empowerment Gap and the poverty gap are defined as the aggregate differential between actual private consumption expenditure and the consumption requirements of the Empowerment Line and the poverty line, respectively.
2 Using average exchange rate of $1 = INR 48.0769 for April 2011–March 2012.
SOURCE: National Sample Survey Office survey, 68th round; McKinsey Global Institute analysis

But the challenge of bridging the Empowerment Gap is more complex than simply raising public spending by an additional 4 percent of GDP. In reality, it will require investing substantially more in order to fill gaps in infrastructure and access to basic services over a sustained period of time—and these basic services will have to be operated more effectively to extend their benefits to the maximum number of people. We estimate that on average, Indians lack access to 46 percent of the services they need and that just 50 percent of government spending actually reaches the people.

1 All Empowerment Line figures are given in 2011–12 prices.

Rising incomes drove three-quarters of India's past reduction in the Empowerment Gap, while more government spending drove the rest

From 2005 to 2012, the head count of people below the Empowerment Line fell by 183 million, as India's economy grew at a rapid pace of 8.5 percent per year. Rising personal incomes associated with economic growth produced three-quarters of the drop in the Empowerment Gap. The remaining one-fourth was driven by an expansion of public spending on basic services. Even for those below the official poverty line, who typically reap greater benefit from public spending, rising incomes drove 66 percent of the reduction in the Empowerment Gap. But both of these trends could have delivered much more impact.

Despite rapid GDP growth, the majority of India's labour force remains engaged in low-productivity activities. Almost 60 percent of those who live below the Empowerment Line derive most of their livelihood from agriculture, but India's land productivity is just half that of other emerging Asian countries. A faster shift of labour from farm to non-farm jobs (matching China's pace) could have lifted 100 million more people above the Empowerment Line from 2005 to 2012. Today there are too few job opportunities outside the farm sector, a factor that limits the economic opportunities available to women in particular. In fact, just 57 percent of India's working-age population participates in the labour force—well below the norm of 65 to 70 percent in other developing countries.

India's labour productivity also lags due to the high prevalence of unorganised and sub-scale businesses.[2] Enterprises with fewer than 49 workers accounted for 84 percent of India's manufacturing employment in 2009, compared with 70 percent in the Philippines, 46 percent in Thailand, and a mere 25 percent in China. Tiny enterprises in India, across both manufacturing and services, typically have just one-eighth the productivity of larger enterprises with more than 200 workers (Exhibit E3).

Meanwhile, government spending on basic services rose at 11 percent per year in real terms, faster than GDP, from 2005 to 2012, but it did not fully translate into benefits for the poor. Our estimates, based on published government data, indicate that approximately half of India's total public spending on basic services did not produce the desired results, with much of it lost to inefficiency or corruption (Exhibit E4). Some 35 percent of India's food subsidy, for instance, did not reach consumers, and the poorest population segments received less than 40 percent of the subsidy intended for them despite the fact that they account for 80 percent of the hunger gap.

Apart from leakage and waste, the quality of services is also lacking. State-run schools and health centres produce weak learning and health outcomes—in fact, our analysis of relative efficiency across India's states indicates that the same outcomes could have been achieved with half the level of spending on education and about one-third of the spending on health. These inefficiencies represent a tragically lost opportunity: if subsidies and social programmes had been 75 percent effective in reaching the poor, approximately matching the level

2 Enterprises in the government, public sector, private limited or public limited companies, cooperative societies, and other enterprises employing more than ten workers, are considered organised enterprises in India.

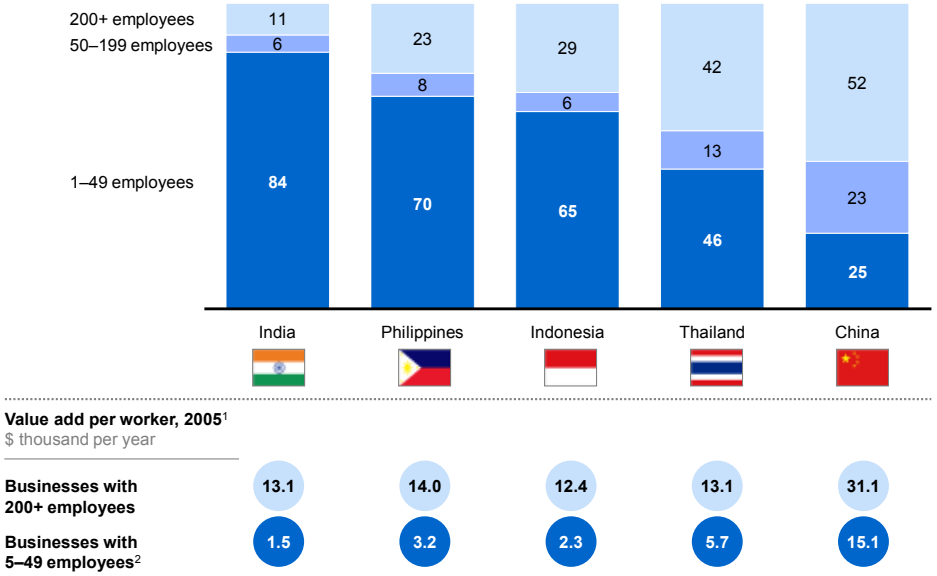
of effectiveness already achieved in India's best-performing states, an additional 85 million people (7 percent of the population) could have moved out of extreme poverty from 2005 to 2012.

Exhibit E3

India's manufacturing sector is characterised by a glut of sub-scale, low-productivity enterprises

Share of manufacturing employment by firm size, 2009

%



Value add per worker, 2005[1]

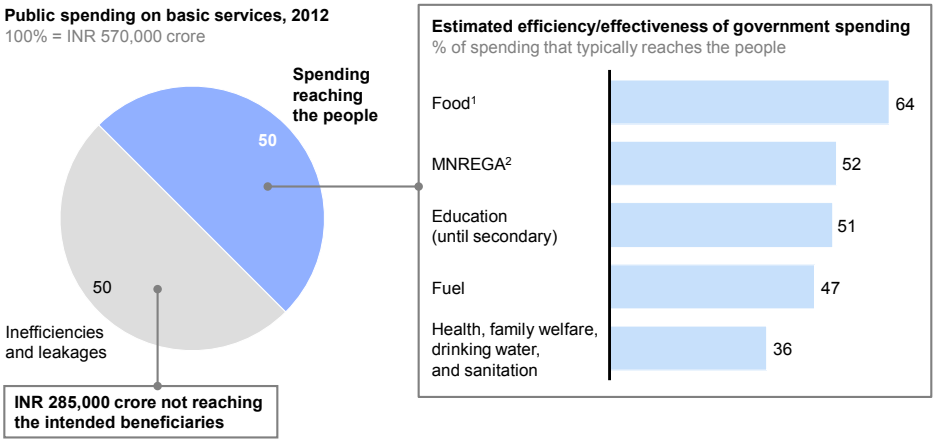
$ thousand per year

	India	Philippines	Indonesia	Thailand	China
Businesses with 200+ employees	13.1	14.0	12.4	13.1	31.1
Businesses with 5–49 employees[2]	1.5	3.2	2.3	5.7	15.1

1 Both manufacturing and services businesses.
2 Productivity data is only for small enterprises (i.e., 5–49 employees) and does not include micro enterprises (i.e., 1–4 employees).
NOTE: Numbers may not sum due to rounding.
SOURCE: Asian Development Bank, *Key indicators for Asia and the Pacific,* 2009; McKinsey Global Institute analysis

Exhibit E4

Currently, some 50 percent of public spending on basic services does not reach the people because of inefficiencies in governance and execution



1 For people below official poverty line, only 36% of food subsidy reached the intended beneficiaries in 2009–10.
2 Mahatma Gandhi National Rural Employment Guarantee Act.
SOURCE: National Sample Survey Office; government fiscal statistics; McKinsey Global Institute analysis

While health care is a critical gap across the board, hunger is a dominant issue for the poorest and housing is a growing need in urban areas

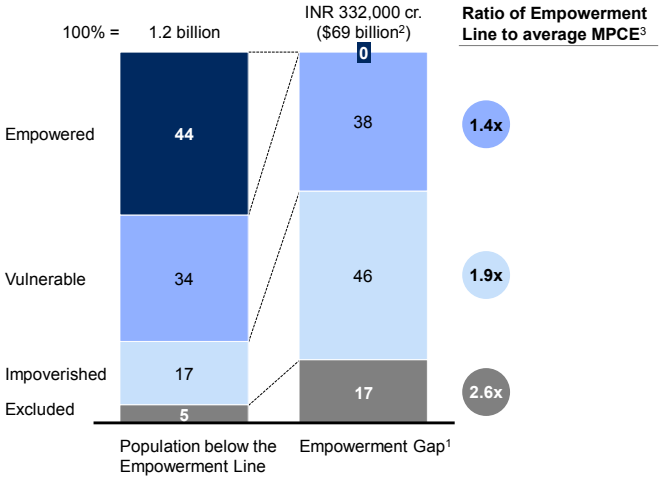
Because the poor cannot be painted with a single brush, the Empowerment Line offers a more nuanced view of how deprivation is experienced. We define three segments of the population according to their depth of poverty (Exhibit E5). Some 57 million Indians are classified as "excluded"; they are the poorest of the poor, unable to afford minimal food, shelter, and fuel. An additional 210 million are "impoverished", with consumption above bare subsistence levels but still below the official poverty line. Just above the official poverty line, some 413 million Indians are "vulnerable". They have only a tenuous grip on a better standard of living; shocks such as a lost job or a bout of illness can easily push them back into extreme poverty.

Exhibit E5

There are three distinct segments below the Empowerment Line

India's population and Empowerment Gap by segment, 2011–12[1]

%



1 The Empowerment Gap is defined as the aggregate differential between actual private consumption expenditure and the Empowerment Line.
2 Using average exchange rate of $1 = INR 48.0769 for April 2011–March 2012.
3 Monthly per capita expenditure.
NOTE: Numbers may not sum due to rounding.
SOURCE: National Sample Survey Office survey, 68th round; Oanda; McKinsey Global Institute analysis

The needs of all three segments are critical to address. The excluded are in desperate circumstances and require immediate help. The impoverished, who represent almost half of India's Empowerment Gap, would benefit from better management of existing programmes targeted to those below the official poverty line. Finally, designing policies to address the needs of the vulnerable segment will become increasingly important over time, as more people exit extreme poverty but find themselves stuck in the ranks of the vulnerable.

Health care, clean drinking water, and sanitation are critical gaps for all of these groups, whether in urban or rural India. These basic services make up the largest share (39 percent) of the cumulative Empowerment Gap of Rs. 332,000 crore ($69 billion). However, the pattern of needs varies by segment. The most urgent unmet needs of the excluded and impoverished are hunger and health, while health, education, and housing are major issues for the vulnerable. Urban Indians,

while less prone to being impoverished or excluded, are almost as likely to fall into the vulnerable category as rural residents, and affordable housing is a significant unmet need for them.

Apart from income-based deprivation, India's people also lack access to 46 percent of the basic services they require

When it comes to the availability of social services, geography is destiny for those below the Empowerment Line. Patterns of deprivation are more complex and multi-dimensional than what is implied by income or consumption measures alone. Even for households of similar income levels, the actual experience of poverty varies dramatically based on where they live. The availability of well-run social infrastructure and free or low-cost services in the vicinity of the poor is a crucial determinant of their quality of life. MGI has constructed the Access Deprivation Score (ADS) to capture this factor. It supplements the income-based measure of the Empowerment Line by highlighting geographical gaps in access to basic services.

Using the ADS, we map India's 640 districts into five distinct archetypes based on their relative levels of access to schools, health centres, drinking water, sanitation, and improved energy sources (Exhibit E6). The ADS for each district measures the extent to which these basic services are absent relative to the aspired levels of coverage. Nationwide, the gap is 46 percent, but the range is wide: people living in the Most Deprived Districts may lack access to almost 60 percent of basic services, while those in the Least Deprived Districts lack access to about 34 percent.

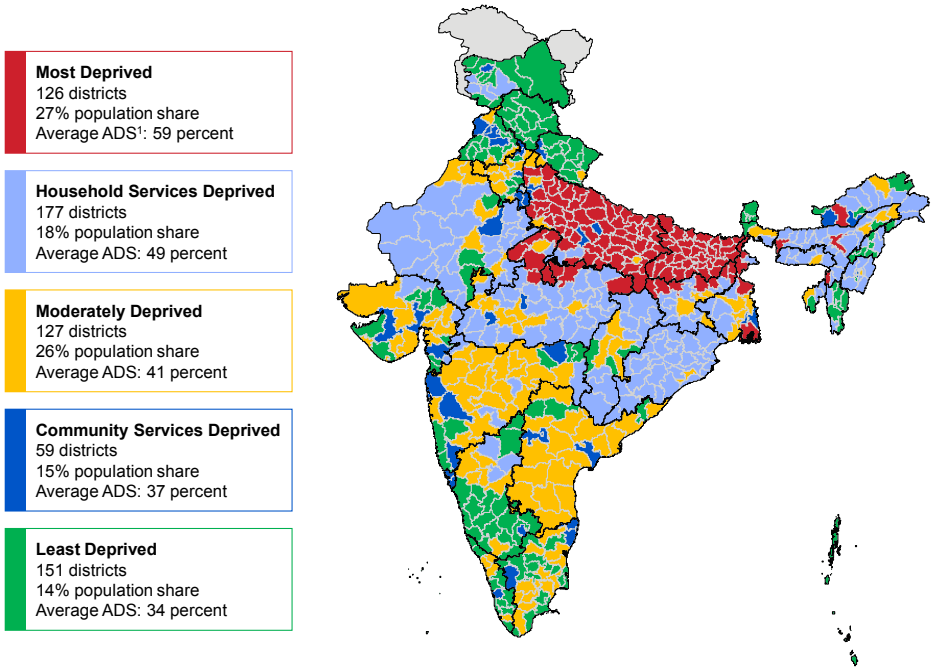
Based on cross-sectional data for 640 districts in 2010, we find that residents of India's more prosperous districts are more likely to be able to afford household-level services that they can purchase themselves (by building toilets in their homes, drilling tube wells, or using liquefied petroleum gas-based cooking stoves, for instance). However, the positive effect of income is muted when it comes to education and health care. In India's largest and most crowded cities (which are classified as Community Services–Deprived Districts), residents have higher purchasing power, but that does not mitigate the difficulty of obtaining affordable medical care and quality education. The expansion of social infrastructure has not kept pace with growing population density.

The utilisation of health and education services, as measured in the ADS, seems to go hand in hand with greater levels of grassroots community involvement, especially by women. In fact, some of the poorest districts by income fare significantly better on access to health care and education than would be expected at their income levels if they also post stronger indicators for women's empowerment.

Exhibit E6

Each of India's districts falls into one of five categories based on the extent and pattern of deprivation found there

2011



1 Access Deprivation Score: distance of each district from the point of no deprivation.

SOURCE: Census 2011; District-level Health Survey, 2007–08; District Information System for Education, 2009–10; National Sample Survey Office survey, 2011–12; *India state of forest report 2011,* Ministry of Environment and Forests; McKinsey Global Institute analysis

India can bring more than 90 percent of its people above the Empowerment Line in just a decade by implementing inclusive reforms

We have developed two scenarios to see how rapidly India can raise people to the standards of living implied by the Empowerment Line. The first, which we call "stalled reforms", assumes that no bold policy measures are taken and that slow economic growth continues. The second considers an alternative path of "inclusive reforms".

In the stalled reforms scenario, poverty is likely to maintain its grip on a large share of India's population. India's economic engine has been sputtering since 2011, and there has been a growing sense of legislative and administrative paralysis. In the absence of major reforms, the scenario assumes that India's GDP grows at just 5.5 percent from 2012 to 2022 and that the effectiveness of social spending remains unchanged.

In such a scenario, some 470 million Indians (36 percent of the population) would remain below the Empowerment Line in 2022, and 12 percent of the population would still be trapped below the official poverty line. At this rate, the goal of eliminating extreme poverty would not be reached until the mid-2030s. The lack of decisive reforms also makes it unlikely that India would convincingly address gaps in access to social infrastructure. Lower GDP growth implies lower fiscal

resources, limiting public spending for basic services. As a result, India's access deprivation would only come down to 26 percent by 2022.

The path of inclusive reforms envisages a far more positive alternative, one in which the nation takes steps to stimulate investment, job creation, and farm productivity, as well as dramatically improve the delivery of basic services. These reforms could potentially allow India to achieve an average GDP growth rate of 7.8 percent between 2012 and 2022. This could lift 580 million people above the Empowerment Line, leaving 100 million (7 percent of the population) below it in 2022 and 17 million (just 1 percent) below the official poverty line—virtually eliminating extreme poverty in just a decade.

The higher GDP growth inherent in the inclusive reforms scenario generates more tax revenue that can be ploughed back into spending for basic services—and it simultaneously ensures that India meets its fiscal objectives more quickly. To achieve this goal, India will need to increase its investment rate from nearly 36 percent of GDP since 2005 to an average of 38 percent over the next ten years. The combination of higher investment, faster economic growth, and increased tax revenue could allow India to bring its fiscal deficit to 6 percent of GDP from 2017 onward while enabling a moderate but steady increase in social spending, in line with GDP growth, that could bring access deprivation in basic services down from 46 percent to just 17 percent. Although these goals are aspirational, they are feasible based on successes already demonstrated by India's better-performing states.

FOUR CRITICAL ELEMENTS ARE KEY TO THE PATH OF INCLUSIVE REFORMS

The inclusive reforms scenario hinges on four key elements (Exhibit E7):

- **Accelerating job creation.** India needs reforms that unlock the economy's potential to add 115 million non-farm jobs by 2022 (about 40 million more than the stalled reforms scenario would generate). This would absorb the expected growth of 69 million in the working-age population, raise the labour force participation rate by some 2 to 3 percentage points, and reduce the share of farm jobs from 49 percent of total employment in 2012 to 37 percent in 2022. Construction will need to be the biggest contributor, adding some 50 million jobs. The manufacturing sector will need to accelerate growth to create some 21 million to 27 million jobs, while some 35 million to 40 million jobs will need to come from the services sector.

- **Raising farm productivity.** Increasing investment in agricultural infrastructure, research, and extension services can help raise the average farm yield per hectare from 2.3 tonnes in 2012 to about 4.0 tonnes in 2022. This would bring India's yields in line with those in other emerging Asian countries. Gains in agricultural productivity would also accelerate the transition of labour to more productive non-farm jobs.

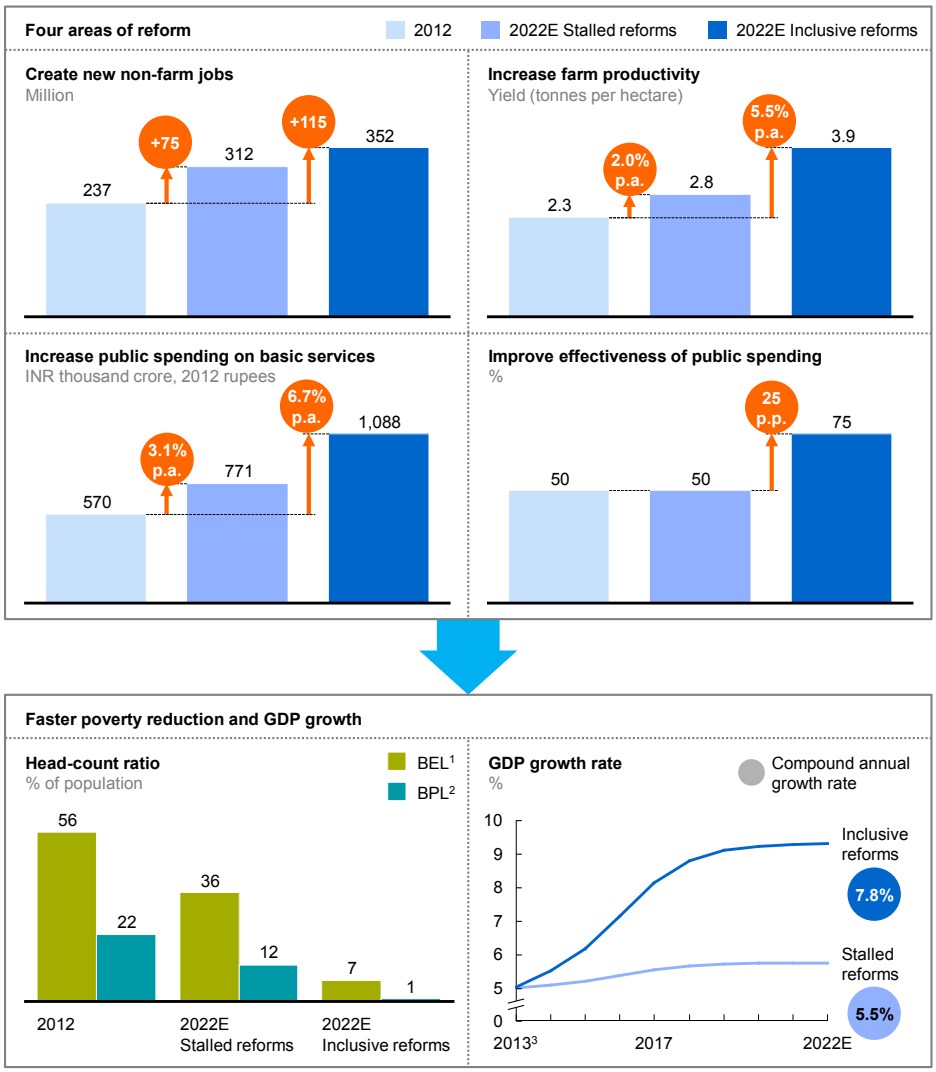
- **Increasing public spending on basic services.** India cannot fully realise the potential of its human capital until its population has wider access to affordable basic services. In absolute, real terms, public spending on social services needs to nearly double from Rs. 570,000 crore ($118 billion) in 2012 to Rs. 1,088,000 crore ($226 billion) in 2022 to fill critical gaps in social infrastructure. This entails an annual real growth rate of about 6.7 percent in

public spending for basic services (which is actually lower than the 11 percent annual rate of increase from 2005 to 2012). If India can achieve the higher rates of economic growth assumed in the inclusive reforms scenario, this would continue to represent about 6 percent of GDP. The share allocated to health, water, and sanitation services, however, needs to increase from 21 percent in 2012 to nearly 50 percent of total social spending in 2022. Just as expanding access to primary education was given top priority in the past decade, India needs a concerted push to build more extensive health-care infrastructure in the decade ahead.

- **Making basic services more effective.** The impact of higher public spending on basic services is magnified if more of that spending reaches its intended beneficiaries. The inclusive reforms scenario assumes that the nation as a whole can raise the effectiveness of social spending from 50 percent to at least 75 percent by 2022, matching the levels already demonstrated by India's best-performing states. If India increases funding for basic services

Exhibit E7

Pursuing inclusive reforms in four key areas can achieve faster GDP growth and unprecedented poverty reduction



1 Below Empowerment Line.
2 Below official poverty line.
3 GDP growth of 5% in 2012–13 based on provisional estimates.

SOURCE: McKinsey Global Institute analysis

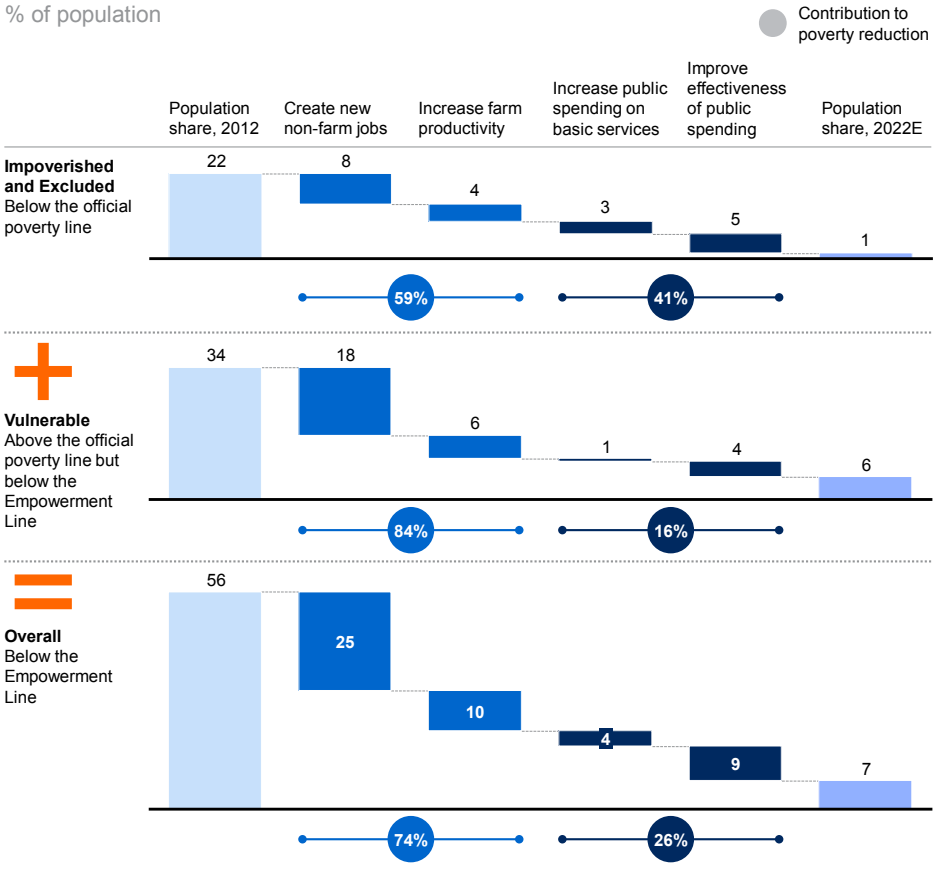
but does not improve on this current performance, nearly Rs. 545,000 crore ($113 billion) of social service spending will fail to reach intended beneficiaries in 2022, up from about Rs. 285,000 crore ($59 billion) today. Best practices and innovative examples from around the world (and from pilot programmes within India itself) show how this can be done. Some of the most promising strategies include forming partnerships with the private and social sectors, mobilising community participation, and using technology to streamline and monitor operations.

While all four of the levers are essential, a surge in job creation would make the largest potential contribution to poverty reduction. In fact, job growth in non-farm sectors combined with productivity growth in agriculture would directly contribute to lifting more than 400 million people above the Empowerment Line, or more than 70 percent of the total impact in the inclusive reforms scenario. The impact is even more pronounced for the vulnerable segment, but even for the impoverished and the excluded, jobs and productivity growth are the most powerful drivers of higher living standards (Exhibit E8). Raising public spending alone, without improving the effectiveness of delivery, would contribute less than 10 percent of the potential impact across segments.

Exhibit E8

Productivity improvements and public provision of basic services contribute in different proportions based on the poverty segment

% of population



NOTE: Numbers may not sum due to rounding.

SOURCE: National Sample Survey Office, 68th round; McKinsey Global Institute analysis

India needs to create 115 million non-farm jobs through cross-cutting reforms and targeted public investment

India needs 115 million new non-farm jobs over the next decade to accommodate a growing population and to reduce the share of agriculture in employment. The manufacturing and construction sectors can form the backbone of this effort, as these sectors are well-suited to absorbing lower-skilled labour moving out of farm jobs (Exhibit E9). Labour-intensive services—such as tourism, hospitality, retail trade, and transportation—will also need to add 35 million to 40 million jobs.

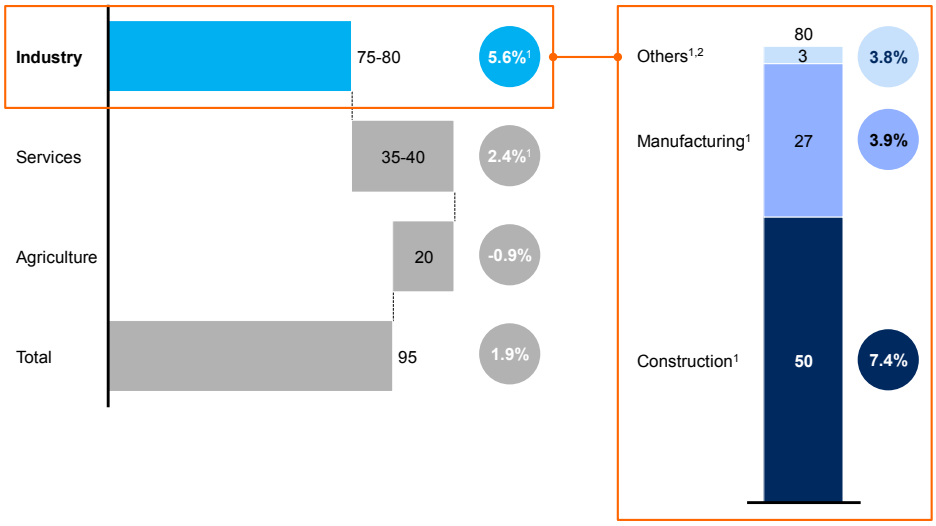
The government can catalyse job creation by rebalancing its spending pattern to increase public investment in the economy. The subsequent uptick in growth and investor sentiment would crowd in private investment. Put together, the overall investment rate would rise from an average of 36 percent since 2005 to an average of 38 percent over the next decade in the inclusive reforms scenario.

Exhibit E9

India's industrial sector will need to lead the way on job creation, especially in construction and manufacturing

Incremental job creation in inclusive reforms scenario, 2012–22E

Head count, million



1 Calculated assuming 80 million new industry and 35 million new services jobs.
2 Includes mining and quarrying, electricity, gas, and water supply.
NOTE: Numbers may not sum due to rounding.
SOURCE: McKinsey Global Institute analysis

Almost half of the required jobs will need to be generated for the workforce in states with particularly difficult starting conditions (including challenges with the quality of education, which exacerbates skills shortages, as well as low levels of urbanisation). Uttar Pradesh's labour force, for example, will need some 23 million non-farm jobs (approximately one-fifth of the national requirement), although the state is largely rural and organised enterprises account for only 9 percent of its employment. Some 11 million workers from Bihar will need to be absorbed into the non-farm sector in an even less advantageous climate. India's job-creation strategy must provide broad-based reforms that invigorate job growth both in these regions and across the entire country.

As China moves up the value chain, India and other emerging economies with low labour costs have an opportunity to capture a larger share of labour-intensive industries by integrating domestic manufacturing with global supply chains. But today an array of barriers limits the ability of Indian businesses—both large and small—to invest and become more competitive, scale up, and create jobs. Revitalising India's job-creation engine will require decisive reforms and a laser focus on implementation in six high-priority areas:

- **Accelerate critical infrastructure for power and logistics.** Infrastructure gaps, especially in power and transportation, hinder economic growth, particularly in manufacturing. For better execution of projects, the government could establish a high-level National Infrastructure Delivery Unit in the prime minister's office to build an integrated view of the country's infrastructure needs, coordinate across ministries and functions, set and monitor schedules, and address bottlenecks. This unit could work with the Cabinet Committee on Investment to expedite infrastructure projects. A State Chief Minister's Office could also set up a State Infrastructure Delivery Unit for the same purpose.

- **Reduce the administrative burden on businesses.** Complex and archaic regulations pose a significant cost, especially for micro-, small, and medium-sized businesses, discouraging both investment and their move into the formal economy. India can reduce this burden in a phased manner, starting with quick wins that require simple changes in administrative rules and procedures rather than new legislation. In the medium term, the rollout of e-government platforms and "one-stop shops" supported by automated government processes can be accelerated, with more fundamental improvements such as selective outsourcing to private-sector providers and extending the Right to Public Services laws to business services as the third phase.

- **Remove tax and product-market distortions.** India's many taxes result in high compliance costs, and differences across states and sectors balkanise the national market, harming the ability of businesses to achieve economies of scale. If implemented, the proposed goods and services tax, a harmonised consumption tax across nearly all goods and services, represents a step towards reducing complexity and lowering the tax burden. In addition to cross-cutting tax reform, India can spur growth by removing tax and duty distortions in individual sectors—especially those that will be the most significant sources of non-farm job creation, such as garment manufacturing and tourism.

- **Rationalise land markets.** In 2013, India enacted the Land Acquisition, Rehabilitation and Resettlement Bill, which was intended to create a framework to deal fairly with the displaced. However, inefficient land markets remain a major impediment to economic growth, as property rights are sometimes unclear and the process for land acquisition is time-consuming. India can reinforce property rights by demarcating land holdings through geospatial surveys and providing standardised title to landowners through digitising records, as Karnataka has done. Similarly, restrictions on monetising land can be loosened or eliminated to facilitate private transactions for major projects and encourage the farm to non-farm shift.

- **Take phased steps to make labour markets more flexible.** At least 43 national laws—and many more state laws—create rigid operating conditions and discourage growth in labour-intensive industries. But ironically, they secure rights for only a tiny minority of workers. India can make its labour market more flexible in a phased manner, and states that have begun this process have higher job-creation rates on average than those that have not. A multitude of rules that restrict terms of work and work conditions can be simplified or eliminated. In the medium term, India could rationalise laws governing dismissal, pairing this with measures to reinforce income security for the unemployed.

- **Help poor workers build skills with government-funded mechanisms.** Vocational education is needed most acutely by the poorest workers—those with little or no education and those who live in rural areas. There are 278 million Indians of working age in these segments, but they are under-served. Providers such as IL&FS Skills have built effective models that focus on providing low-cost delivery, fostering interactive learning, and teaching skills that are in demand. The government can scale up this approach by giving poor workers vouchers that can be redeemed for vocational training with accredited providers that are subject to monitoring and certification. Workers in informal sectors and the self-employed (for example, caregivers, cooks, nursing aides, hairdressers, shop assistants, plumbers, and electricians) can raise their incomes through skill building. Short training courses of a few months' duration, along with certification systems, could help.

INVESTMENT IN "JOB-CREATION ENGINES" CAN PROMOTE MORE GEOGRAPHICALLY BALANCED GROWTH AND BE SELF-SUSTAINING

Along with making broad-based reforms to improve the business environment, India can invest in stimulating specific "job-creation engines". Our research finds that investing in 70 to 100 sites, such as industrial townships or service hubs, tourism circuits, and food-processing parks, can add 11 million incremental jobs within a decade, and many more as these sites grow in scale. To be successful, they would need to be located in areas with potentially high competitive advantages (where natural endowments, traditional skills, and some base of entrepreneurs already exist, for example)—and there are hundreds of such locations in India across most states.

These job-creation engines would need to be seeded by public investment in infrastructure and services, including reliable and low-cost power, road and rail connections, and affordable housing and schools for workers' families. By our estimates, launching 35 industrial townships over a decade could require capital expenditure for infrastructure averaging some Rs. 30,000 crore ($6 billion) annually for the first eight years, after which cash flows turn positive. (Launching tourism circuits or food-processing zones is significantly less capital-intensive.) Such investments can be self-sustaining, yielding internal rates of return to the government in excess of 25 percent per year and generating funds for additional investment. Creating thriving new job centres across the country would encourage more geographically balanced economic growth, raising the share of population in small and medium-sized cities. This could alleviate some of the pressures on basic services in India's largest cities.

India can raise farm yields by rebalancing investment and making targeted reforms in the agricultural sector

Focusing on the productivity of the agricultural sector to lift the incomes of smallholder farmers is one of the most direct routes to addressing rural poverty. Yet agriculture has not kept pace with growth in India's broader economy. Today the nation's yield per hectare is half the average of China, Indonesia, Malaysia, and Thailand. But India has the capacity to raise its yield growth from 2.0 percent, its historical level, to 5.5 percent annually over the next ten years—and this can raise approximately 10 percent of the nation's population above the Empowerment Line.

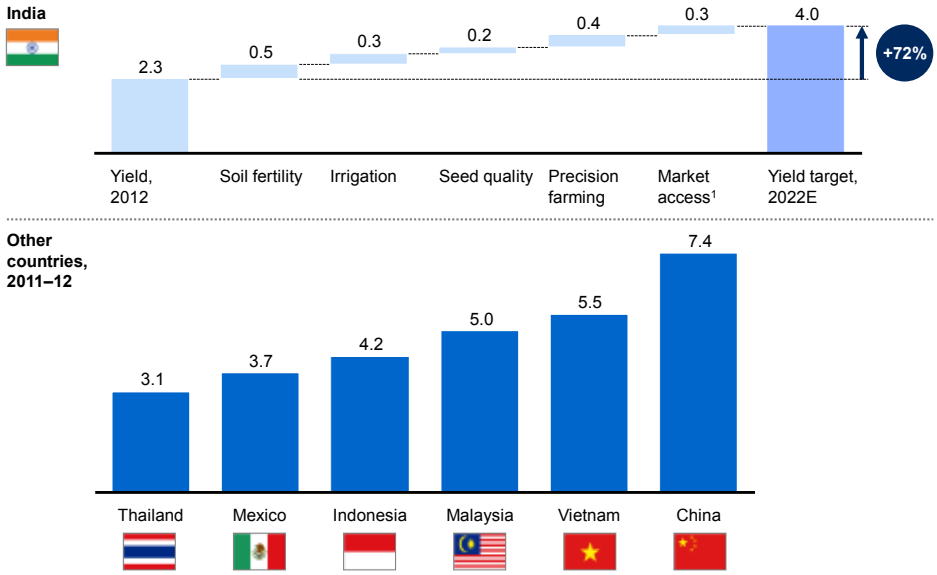
A range of technical levers can help to achieve productivity gains of this magnitude. These include fertiliser and manure use to improve the quality of the soil, more efficient water management (for example, through decentralised water harvesting and micro-irrigation), research-driven improvements in seed quality, technology-based "precision farming", better market access, and improved post-harvest logistics to reduce crop waste (Exhibit E10).

Exhibit E10

By 2022, India can increase farm yields to 4 tonnes per hectare, which would be comparable to current yields in other emerging economies

Yield

Tonnes per hectare



1 Includes post-harvest infrastructure and rural roads.
NOTE: Numbers may not sum due to rounding.
SOURCE: UN Food and Agriculture Organization; McKinsey Global Institute analysis

In the past, India's spending on agriculture has focused on input and output price support rather than investment in agricultural infrastructure, scientific research, and extension services (which educate farmers on new technologies and best practices). In 2010–11, the government spent Rs. 86,000 crore ($18 billion) on input subsidies (primarily fertiliser), but less than half that amount (Rs. 34,000 crore, or $7 billion), on building storage and irrigation systems, as well as scientific research and extension services. Along with rebalancing this investment profile, policy makers can focus on reforms in nine high-priority areas of the agriculture sector:

- **Enable private trade by reforming APMC acts.** India's agricultural produce market committees (APMC) place severe restrictions on private trade in farm produce. APMC reform could introduce a greater degree of competition and enable farmers to obtain sufficient value for their output. Some states have excluded certain agricultural products from APMC coverage, but these are piecemeal solutions at best. The Model APMC Act issued by the central government in 2003 facilitates private trade in more comprehensive way, but the states have varying track records for implementation. To create a sense of accountability and urgency for state-level reforms, India can strengthen transparency and awareness among farmers by keeping a digital record of the prices and quantities at APMC auctions; organising annual *krishi mahotsav* gatherings; and improving direct interaction among farmers, traders, corporations, bureaucrats, and the agriculture minister. A greater role for the private sector, including modern retail, can also enable the agricultural produce market to flourish.

- **Use technology for better price discovery.** Poor price information reduces farmers' bargaining power with traders and prevents them from selling their product in the most lucrative market if multiple options are available. Fee-based price dissemination services can help: Esoko, which operates across Africa, provides automatic and personalised price alerts and buy and sell offers by SMS to farmers. In India, IFFCO Kisan Sanchar Ltd. provides information on market prices via voice messages in local languages.

- **Rationalise price supports for agricultural produce.** The government's minimum support price for a wide range of crops distorts the efficient allocation of resources. For example, it deters farmers from diversifying to higher-value crops such as fruits and vegetables, which are six times as productive per hectare as cereals. The government can rebalance minimum support prices to reflect consumer preferences and the true cost of production, within fiscal boundaries. The creation of an independent regulatory agency to set support prices within a fixed fiscal framework, responsive to consumer needs and preferences, could help.

- **Introduce hybrid public-private crop insurance programmes.** Only 17 percent of India's farmers are insured. The National Agriculture Insurance Scheme, the government's flagship crop insurance programme, needs to become more responsive to their needs. A hybrid model, such as the one that prevails in France (where private-sector companies offer crop insurance, with premiums subsidised by the government) could boost utilisation. With the introduction of competition, market forces, and better administration, public insurance providers would be forced to respond by improving technology and introducing new products and pricing strategies.

- **Provide financial incentives to adopt new technology.** More can be done to encourage farmers to adopt the latest technologies. Under the National Mission on Micro Irrigation, for example, the central government funds 40 percent of the cost of a micro-irrigation system, while the state government contributes 10 percent. Andhra Pradesh has set up special-purpose vehicles for micro-irrigation subsidies.

- **Overhaul the public extension network and enhance private-sector participation.** A holistic approach to extension across various divisions and departments has been successful in some states. In Gujarat, for example, *krishi raths* (mobile vehicles) visit village after village to share information on agricultural best practices. Fee-based private extension services (such as those offered by Mahindra Subhlabh Services Ltd.) can boost extension support to medium-size and large farms with the capability to pay. Public extension will need to play an important role for poor farmers and those in remote geographies, and the focus will need to shift to mobile-based innovations (such as disseminating weather forecasts, new seed information, and improved farming tips through phones).

- **Improve farmers' access to credit.** Regional disparities in access to credit can be addressed by complementing commercial bank lending with channels such as cooperative banks. Technology and delivery innovations such as business correspondents (third-party, non-bank agents who extend banking services right to people's doorsteps) can be deployed in areas with low conventional banking penetration. Targets can be set on the basis of cropped area and level of technology to ensure more equitable access to capital.

- **Reform land markets and create an institutional framework to promote leasing.** Land markets in several parts of rural India are dysfunctional, as mentioned above. Creating more modern and comprehensive landownership records is a crucial first step in addressing this issue. The leasing market could also be strengthened by the introduction of public land banks that allow absentee landowners to "deposit" their land and receive rent for its use. Small and marginal farmers could be encouraged to borrow and cultivate the land, knowing that they have secure tenancy for a fixed period. This would utilise more arable land and allow farmers to increase their output.

- **Integrate governance of agriculture at a grassroots level.** Gujarat has achieved an impressive agricultural turnaround, and at its core is good inter-ministerial coordination. But in most of India, the organisational bureaucracy overseeing the farm sector is overwhelming, with separate ministries for agriculture, chemicals and fertilisers, food processing, water resources, and rural development at the centre, and an even greater multiplicity of authorities at the state level. A formal structure such as a Delivery Unit could be considered to coordinate ministries and departments. Similarly, agricultural missions could empower a team of bureaucrats and domain experts to make decisions and allocate financial support.

Public spending will need to increase by about 7 percent per year to expand access to basic services

Access to basic services remains extremely weak and fragmented across most of India. To bridge the gaps, India would need to increase social spending by 6.7 percent per year in real terms (as compared to 11 percent annual growth between 2005 and 2012). Total public spending for basic service would need to almost double, rising from Rs. 570,000 crore ($118 billion) in 2012 to Rs. 1,088,000 crore ($226 billion) in 2022. The pace of economic growth will

determine whether government revenue will be sufficient to support this increase. Under the inclusive reforms scenario, this higher level of spending would continue to represent about 6 percent of GDP in 2022, approximately the same as at present. In the stalled reforms scenario, however, maintaining funding for basic services at 6 percent of GDP would mean that only about 70 percent of the required amount of spending would be possible due to fiscal constraints.

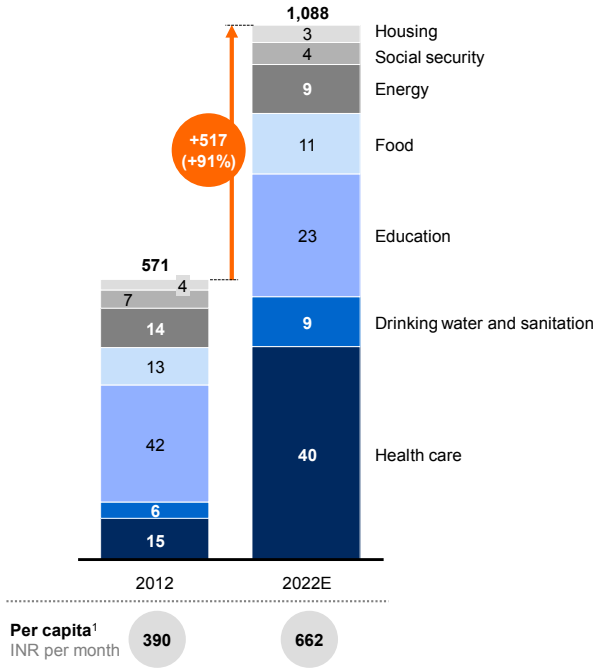
Much of the incremental spending in the inclusive reforms scenario will need to be channeled into health care, clean drinking water, and sanitation, where deprivation is deep and broad-based (Exhibit E11). These services account for about 39 percent of the Empowerment Gap. In addition, our cross-district analysis indicates that improvements in access to health care are not very responsive to increases in individual income, thus necessitating higher public spending. Health care, drinking water, and sanitation would require up to 49 percent of total social spending in 2022, an increase from 21 percent in 2012. Future allocation decisions should consider the areas with the most serious gaps, both in terms of geography (building health centres in the Most Deprived Districts, for instance) and in terms of recipients (targeting nutritional support to reach more of the bottom three deciles of the population by income, who feel the need most acutely).

Exhibit E11

Public spending on basic services needs to almost double, with more resources allocated to health care, drinking water, and sanitation

Public spend on basic services

%; INR thousand crore, 2011–12 rupees



1 Not accounting for inefficiencies and leakages.
NOTE: Numbers may not sum due to rounding.
SOURCE: Indian Public Finance Statistics; McKinsey Global Institute analysis

India can transform the delivery of basic services, matching the results already achieved in its best-performing states

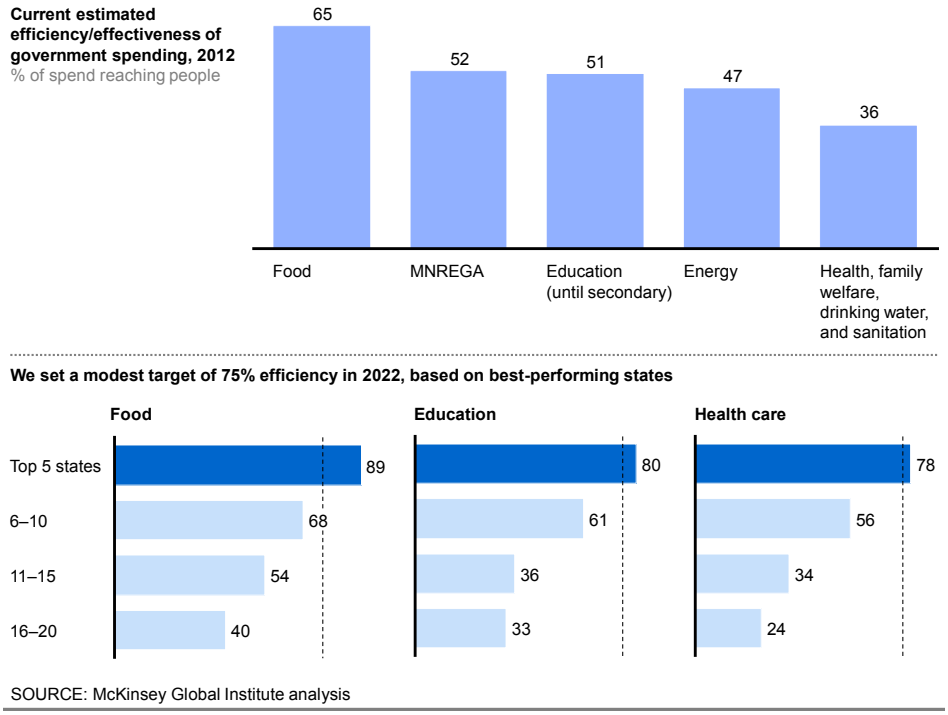
Providing all Indian citizens with the basic services they need will require not only an increase in public spending but also fresh thinking about the best ways to deploy resources to achieve maximum results.

One key initial step in making social spending more effective is selecting the right delivery model. There are two main types: in-kind transfers, in which the government provides the service, and financial transfer models, in which the government transmits benefits directly to consumers and enables them to go directly to the service provider of their choice. To deliver nutritional support, for instance, the government can provide in-kind aid as it does through the Public Distribution System (PDS), which is relatively well-managed in some states (such as Tamil Nadu and Chhattisgarh) but not in others (such as Uttar Pradesh and Bihar). Or it can give consumers electronic transfers that can be redeemed at a variety of shops (the model employed by Oportunidades, Mexico's successful conditional cash transfer programme). Each model can be successful if the right enablers are in place.

Above all, India's public services need an uncompromising push for better outcomes. The focus must shift from simply spending more to spending more effectively. Bringing the entire nation up to the standards already achieved in the best-performing states for food and fuel subsidy distribution, health, and education services would result in a 50 percent increase in the effectiveness of national social spending (Exhibit E12).

Exhibit E12

At a national level, India can match the effectiveness of spending on basic services currently achieved by its best-performing states



SOURCE: McKinsey Global Institute analysis

External agents—from the private and social sectors—can inject new thinking and new operational approaches to basic service delivery. They can be deployed in a variety of ways, whether by having an outside entity run an entire system funded by the government (for example, public-private partnership schools in which the government provides infrastructure while management is handed over to third parties) or by contracting out specific parts of the process (for example, utilising nongovernmental organisations to run some parts of government health-care systems). In all these approaches, it is critical to have clear and airtight contracts, service-level agreements, and stringent monitoring by the government and other stakeholders.

Engaging local communities, especially women, can have a dramatic effect on improving public services. India is starting to see encouraging developments on this front. In Chhattisgarh, *gram panchayats* (village councils) are monitoring food subsidy recipients. Cooperatives and women's self-help groups in Tamil Nadu are running fair price shops, the point of contact for subsidised food distribution. This kind of involvement transforms the poor from beneficiaries to active participants in the system.

Continuous measurement and tracking of key metrics can make a big difference to the effectiveness of any service provider. Pratham, the largest educational NGO in India, has implemented a systematic national measurement process to evaluate children's learning outcomes, which is creating pressure on schools to improve performance. In Maharashtra, villagers are using pictorial report cards to track doctor and nurse absenteeism and audit the availability of medical supplies. Technology is one the most promising avenues for transforming the delivery of services. SMS-enabled systems are being used to build stronger communication with beneficiaries, while digital checks and balances (using simple computerisation, electronic transfers of funds, or RFID tracking tags and smart cards) can help guard against corruption.

India also needs a more dynamic and creative approach to augmenting human resources; social franchising models, for example, can transform community members into "basic service entrepreneurs". SughaVazhvu, a health-care service provider in rural Tamil Nadu, operates clinics run by local health extension workers and people with degrees in traditional medicine. CARE Rural Health Mission provides primary health care in Andhra Pradesh using local workers who are trained as "village health champions" and equipped with electronic devices to connect with professionally trained doctors.

Today a host of interesting ideas, models, and experiments are being tried around the world and across India. Based on an analysis of more than 350 case studies, we have identified a range of promising approaches to redesigning the delivery of basic services, with a focus on three critical areas: food and nutrition, education, and health care, all highlighted below.

FOOD AND NUTRITION: SIMPLE INTERVENTIONS CAN SIGNIFICANTLY REDUCE HUNGER AND MALNUTRITION

Hunger is a daily reality for India's impoverished and excluded segments, who rely on subsidised cereals for food security. The government-run PDS manages an elaborate machinery for procurement, storage, and distribution, and there is ample scope to improve its efficiency. India could consider selectively moving from its physical food transfer model to one involving cash transfers in cities, thus

providing consumers with greater choice and also potentially reducing waste and leakage in the supply chain. However, in rural areas, there are significant challenges to rolling out cash transfers at present due to low penetration of banking services and of private food shops that stock cereals in bulk quantities. The physical transfer of subsidised grain through government channels is likely to continue to be an important channel of subsidy delivery in such parts of the country.

The state of Chhattisgarh has shown that simple interventions, such as computerising and regularly updating beneficiary lists, can yield considerable results. Communities are actively involved: fair price shop management has shifted from private dealers to community-based organisations such as *gram pachayats*, women's self-help groups, and cooperatives. The government sends SMS alerts to villagers to inform them when shipments of grain are on the way, converting entire communities into watchdogs. Similarly, surprise checks and audits by the Tamil Nadu government are proving helpful to monitor irregularities in food distribution across the supply chain.

Beyond increasing the overall calorie consumption of the poor, it is crucial to diversify their diet to combat widespread micronutrient deficiencies. New manufacturing technologies can fortify food items with vital micronutrients—and a variety of creative approaches can be used to deliver these to the poor. Widely consumed local staples such as rice, oil, and salt are potent vehicles for micronutrients, and the Philippines and Bangladesh, for example, have launched large-scale production of golden rice, which adds beta carotene that the body converts to vitamin A. Enriched foods can be integrated into existing nutritional programmes, through the PDS, maternal centres, or school meals. For-profit companies and NGOs can also play a role. For example, Britannia has developed iron-fortified Tiger biscuits that are distributed by the Naandi Foundation to 150,000 schoolchildren in Hyderabad, and fortified yogurt is distributed house to house by local "Grameen ladies" in the Grameen Danone Bangladesh project.

EDUCATION: INNOVATIVE APPROACHES CAN PRODUCE BETTER LEARNING OUTCOMES

India's education system is ripe for innovation, and our case studies have yielded a number of interesting ideas and models that could play a role in improving primary and secondary schools. Outcome-oriented educational systems, such as US charter schools, can promote greater accountability for performance. Performance pay for teachers has also proven to be effective. The use of vouchers (currently being piloted by the Centre for Civil Society in Delhi, Uttarakhand, Rajasthan, and Uttar Pradesh) introduces competitive pressure on participating schools to improve performance in order to gain enrolment share. Hiring teachers from the local community enables them to better connect with the students and puts reputational pressure on the teacher to deliver. Some communities may not have a sufficient pool of potential teachers, but this can be overcome through focused training and ongoing support.

School leaders can be powerful change agents. Africa's Bridge International Academies, for example, employs a franchise model through which each school's manager is responsible for its performance, with salaries and bonuses linked to outcomes. Bridge also extensively trains and supports school leadership and management with detailed standard operating procedures for financial and operational management, dashboards, and tracking of performance metrics.

This model incorporates the use of mobile phones, tablets, and customised text messages to reduce the costs of teaching, training, assessments, outreach, and school management. Bridge has lowered costs by 80 percent through this "academy in a box" approach.

New digital learning tools could play a role in transforming teacher training and student engagement. Standardised high-quality content (such as Khan Academy's video tutorials) can allow students to follow lectures at their own pace at home, giving teachers leeway to help each student in a tailored way in the classroom. In Brazil, Minas Gerais has pioneered the use of technology to generate assessments regularly and chart each student's progress.

HEALTH: TECHNOLOGY AND INNOVATION TO BRIDGE HUMAN RESOURCE GAPS CAN EXPAND ACCESS

India's 12th Five Year Plan set out the objective of universal health coverage, but the nation is starting with wholly inadequate health infrastructure and a shortage of trained medical professionals. Given the magnitude of the current gaps, there is ample room—and a strong need—for multiple models to proliferate, and many of them can complement the existing government system.

One of the most urgent priorities is training more skilled health-care professionals at all levels. SughaVazhvu, as mentioned above, solves this problem by tapping into the large human resources pool of alternative medicine practitioners and offering them a three-month training and certification programme, supported by strong protocols. Overseas, Zambia's home-based care model for HIV/AIDS and tuberculosis has mobilised teams of community nurses and health workers to care for patients at home and train family members to provide additional care themselves, thus relieving some of the pressure on the overburdened formal health-care system. A standardised approach to diagnosis and adherence to treatment protocols is vital to maintain standards of care and address a lack of highly trained practitioners.

Using the latest in technology has a direct impact on improving outcomes. For example, Mexico's Medicall Home provides remote care to people in rural areas through the use of mobile phones. Healthpoint Services offers video-conferencing services with urban doctors in more than 70 health points (micro-clinics) in Punjab. The new Swasthya Slate (health tablet) has been introduced in India to perform diagnostic tests (such as blood pressure or blood sugar readings) remotely, at a fraction of the cost of traditional diagnostics. Operation ASHA has treated more than 30,000 tuberculosis patients in India and Cambodia and prevented millions of additional cases. Its eCompliance tracking system verifies patient enrolment and treatment against records from government labs, hospitals, and medicine warehouses. A portable biometric identification system using fingerprints is employed every time the patient receives a dose of medication, and programme managers receive a text message to follow up whenever a patient misses a dose.

Better governance is the key to implementing inclusive reforms

A failure to execute well on vital programmes has prevented India from achieving its full economic potential. The government's performance in all its roles—from regulatory oversight to providing services to businesses and citizens—is too often marked by inefficiency, unresponsiveness, or even outright corruption. Today, however, there is growing conviction across India that the time has come to demand greater accountability.

The problem of poor governance can be overcome by efforts on two parallel tracks: building stronger institutional capabilities and strengthening systems to ensure accountability in the public sector. Institutional capabilities can be improved by creating appropriate organisational structures, attracting the right talent to government roles, managing performance, and streamlining processes. Accountabilities can be strengthened by creating multiple checks and balances—whether democratic, reputational, legal, or regulatory—for government agencies and institutions. Six promising ideas, outlined below, can set this process in motion:

- **Empowered agencies for high-priority initiatives, given operational flexibility but held strictly accountable for outcomes.** These agencies (led by externally recruited "change agents" or high-performing civil servants) can be set up with a specific mandate—perhaps building a health-care or drinking water system or creating a tourism circuit. The Unique Identification Authority of India, for example, is a quasi-independent agency mandated to issue personal identification numbers to citizens; it has significant flexibility in running its operations while reporting to a high authority. Such empowered agencies in the central and state governments, focused on the most important priorities, could dramatically improve outcomes and governance in focus areas. Similar efforts, with "chief executive"–style leadership, have been employed in Singapore, the United Kingdom, Chile, and elsewhere.

- **Public transparency.** The Right to Information Act was an important start on the journey to greater public transparency. The next steps are more voluntary government disclosure (by, for instance, putting draft policies and legislation online for public debate) and a massive digitisation effort to get government data into open, shareable form. The imperative for more openness and transparency in government can be strengthened by extending the Right to Public Services, now enacted in 17 states, to a host of citizen and business services. Using this framework, performance metrics can be defined and ongoing feedback loops (such as digitised public scorecards at the state, local authority, and specific desk/office levels) can be instituted.

- **Decentralisation.** Through the 73rd and 74th Constitutional Amendments in 1992, India sought to devolve powers to *gram panchayats*. In several areas, such as the PDS in Chhattisgarh, panchayats have played a constructive role. Giving them substantial independence in revenue and expenditure, greater autonomy over how to implement programmes, and more training can strengthen their capabilities; the same point applies to local bureaucracies.

- **Talent and performance management in government.** Performance management systems can ensure that public officials fulfil their duties. Government commissions on administrative reform have pointed out that India's bureaucracy tends to be more focused on internal processes than on results. To reverse this, bureaucrats should have incentives for good performance and penalties for consistently poor performance. Teacher absenteeism in public schools, for instance, can be reduced if the consequence is strict disciplinary action. Senior bureaucratic positions can be filled through a competitive application-based process, even from within the civil service, to create incentives for delivering outcomes.

- **A robust anti-corruption framework.** India ranked 94th among 174 countries in Transparency International's 2012 Corruption Perceptions Index. Mass protests against corruption culminated in the Lokpal and Lokayuktas Act of 2013. While the impact of this move remains to be seen, more can be done (such as establishing whistle-blower protection). International best practices, such as the model set by Hong Kong's Independent Commission Against Corruption, can be used as a template in India.

- **Simplifying laws and building legal and judicial capacity.** Speedy access to justice at a reasonable cost is critical to empowering households and enterprises economically. To achieve this, India would need to increase the number of courts and judges, review a host of archaic laws, and build greater institutional capacity in its legal and regulatory arms. This will create an ecosystem in which citizens can claim their rights.

CENTRAL AND STATE GOVERNMENTS, THE PRIVATE SECTOR, AND CITIZENS CAN ALL PLAY A PART IN MAKING IT HAPPEN

Pursuing an agenda of inclusive reforms will require considerable political will and a laser focus on implementation and outcomes—but it holds the promise of tangibly improving the lives of more than half a billion Indians.

Political leaders at the central and state levels can shape a new agenda focused on the four priorities outlined here: job creation, growth in farm yields, expanded access to basic services (especially health, water, and sanitation) through moderate spending increases, and more effective basic service delivery. Engaging civil society as well as the private sector and the social sector will be crucial to building a broad national consensus around this approach.

Once the strategic direction is set, the central government can drive momentum by making funding commitments that match these national priorities and putting the enablers in place that will support broad economic growth: infrastructure for power and logistics, the right taxation structure, investment in job-creation engines, and measures that expand financial and digital inclusion.

For their part, state governments could start implementing various reforms and governance ideas almost immediately. Many of them do not require new legislation and can be achieved by simplifying and rationalising existing procedures and programmes. Chief ministers can further critical initiatives in their own states by bringing "change agents" into government, defining and monitoring outcomes clearly, and creating implementation offices that are charged with tracking progress and breaking through departmental silos.

The government's efforts to create a business climate that is more conducive to growth will be critical to building greater confidence among the companies, investors, and entrepreneurs who ultimately will have to drive most of the job creation and productivity gains that can raise incomes. It will also be important to find ways to work with the private sector—along with the social sector and NGOs—to bring in innovations and new operating models that can better deliver basic services. And above all, citizens can do their part by exercising their voices in the demand for greater accountability that can push through comprehensive reforms.

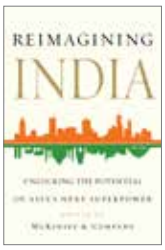
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Fulfilling the fundamental rights of all Indians to economic opportunity and basic dignity is a daunting challenge in the face of such overwhelming need. But if the central and state governments adopt an agenda built around inclusive reforms, convert it into well-designed programmes, and follow through with execution, India could be poised to make unprecedented gains in living standards. In the decade ahead, the world's largest democracy will prove to be a crucial testing ground in the fight to eradicate extreme poverty worldwide. But the nation can set its aspirations even higher—and if they are met, the result could be a profound and historic step forward in India's economic and human development.





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